

Message Text

CONFIDENTIAL

PAGE 01 MADRID 07936 01 OF 06 140320Z

ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10

L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11

AID-05 CEA-01 COME-00 EB-08 EA-10 FRB-03 IO-13

NEA-10 OPIC-03 TRSE-00 LAB-04 SIL-01 AGRE-00

OMB-01 MCT-01 ACDA-12 /138 W

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R 131203Z JUL 78

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C O N F I D E N T I A L SECTION 01 OF 06 MADRID 07936

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FOR ASSISTANT SECRETARY VEST FROM EATON

E.O. 11652: GDS

TAGS: PINT, PEPR, SP, US

SUBJECT: SPAIN AND UNITED STATES-SPANISH RELATIONS:

CONFIDENTIAL

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PAGE 02 MADRID 07936 01 OF 06 140320Z

PARTING ASSESSMENT AND RECOMMENDATIONS

A. INTRODUCTION

1. THERE FOLLOWS MY PERSPECTIVE ON SPAIN, US-SPANISH
RELATIONS AND THE MEDIUM-TERM FUTURE OF BOTH AFTER FOUR
YEARS HERE. THESE FOR YEARS HAVE SPANNED, ROUGHLY, THE

LAST YEAR AND ONE-HALF OF FRANCO AND THE FIRST TWO AND ONE-HALF YEARS OF KING JUAN CARLOS I.

2. A REMARKABLY SUCCESSFUL TRANSITION TO DEMOCRACY HAS OCCURRED IN THE LAST TWO AND ONE-HALF YEARS, BUT DEMOCRACY IS NOT YET FULLY CONSOLIDATED IN SPAIN AND THE STRAINS AND THE UNCERTAINTIES OF THE NEXT FEW YEARS MAY BE GREATER THAN THOSE OF THE LAST FEW.

4. RELATIONS BETWEEN THE UNITED STATES AND SPAIN HAVE CONTINUED EXCELLENT DURING THESE TWO AND ONE-HALF YEARS, DESPITE THE ALBATROSS OF OUR PAST INTIMACY WITH FRANCO. THERE ARE A NUMBER OF REASONS FOR THIS WHICH ARE GIVEN BELOW, BUT THE FUTURE IN THIS REGARD ALSO IS NOT PRE-ORDAINED.

4. SOME RECOMMENDATIONS FOR FORWARDING THE TWIN, AND INTERTWINED, UNITED STATES OBJECTIVES OF (A) THE CONSOLIDATION OF SPANISH DEMOCRACY AND (B) CONTINUED PRODUCTIVE US-SPANISH RELATIONS ARE PROVIDED AT THE END OF THIS PIECE.

B. THE DEMOCRATIC EXPERIMENT THUS FAR

1. IN BRIEF, THE FORCES OF FREEDOM HAVE BEEN SO VITAL AND EFFECTIVE IN THE LAST TWO AND ONE-HALF YEARS IN CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MADRID 07936 01 OF 06 140320Z

SPAIN -- THE POLITICAL LIBERALIZATION PROCESS HAS GONE SO WELL -- BECAUSE OF THE EXTRAORDINARY ECONOMIC AND SOCIAL PROGRESS OF THE 15 YEARS BEFORE FRANCO'S DEATH THAT TRANSFORMED AND MODERATED THE SPANISH SOCIETY; BECAUSE OF THE STRENGTH OF THE DEMOCRATIC IDEA; BECAUSE OF RESIDUAL, SOBERING CONCERNS OVER POSSIBLY RETURNING TO THE POLARIZATION, EXTREMES AND CHAOS OF THE THIRTIES; AND BECAUSE OF EXCEPTIONAL YOUNG LEADERSHIP WILLING, IN A NEW WAY, TO DIALOGUE AND COMPROMISE IN THE INTEREST OF SUCCESSFUL POLITICAL LIBERALIZATION AND SOCIAL AND ECONOMIC REFORM.

2. THE TRANSITION HAS GONE SUCCESSIVELY THROUGH TWO PHASES AND IS ABOUT TO FINISH ITS THIRD AND ENTER A FOURTH.

3. THE FIRST PHASE WAS CHARACTERIZED PRINCIPALLY BY TENTATIVE MOVES TOWARD DEMOCRATIZATION UNDER THE CONTINUING STEWARDSHIP OF PRIME MINISTER ARIAS -- WITH AREILZA, FRAGA AND ANTONIO GARRIGUES, SENIOR, OFFERING A CERTAIN YEAST -- WHILE THE KING ESTABLISHED HIMSELF THROUGH VISITS ABOUT SPAIN AND TO THE UNITED STATES AND MADE SOME PREPARATORY PERSONNEL CHANGES, PARTICULARLY IN

THE MILITARY. THIS PHASE LASTED SEVEN MONTHS, AND THEN THE KING, IMPATIENT WITH THE SLOWNESS OF PROGRESS AND WANTING A MAN OF HIS CONFIDENCE AND OF HIS OWN GENERATION AS PRIME MINISTER, BROUGHT IN SUAREZ. THE YOUNG KING'S CONFIDENCE IN HIS ABILITY TO MAKE THE CHANGE WAS MATERIALLY STRENGTHENED BY THE SUCCESS OF HIS VISIT TO THE UNITED STATES IN JUNE OF 1976.

3. THERE FOLLOWED A FEW SHAKY MOMENTS, PARTICULARLY OVER THE FORMATION OF A NEW GOVERNMENT UNDER THE RELATIVELY UNKNOWN AND UNTRIED SUAREZ, THE EXTENT OF AMNESTIES TO BE GRANTED, AND THE LEGALIZATION OF THE COMMUNIST PARTY. BUT IN A YEAR'S TIME SUAREZ PRODUCED NATIONAL LEGISLATIVE ELECTIONS THAT DEFINED THE POLITICAL MAP OF SPAIN
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MADRID 07936 01 OF 06 140320Z

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MADRID 07936 02 OF 06 140325Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
AID-05 CEA-01 COME-00 EB-08 EA-10 FRB-03 IO-13
NEA-10 OPIC-03 TRSE-00 LAB-04 SIL-01 AGRE-00
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AMEMBASSY MOSCOW
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C O N F I D E N T I A L SECTION 02 OF 06 MADRID 07936

USOECD

FOR A TIME AT LEAST AND PROVIDED INTERIM LEGITIMACY TO HIS GOVERNMENT. SPAIN WAS EUPHORIC; THE DEMOCRATIC IDEAL HAD TRIUMPHED; "A DAY FOR THE POETS," A POLITICAL COMMENTATOR SAID OF THE JUNE 15, 1977 ELECTION DAY.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 07936 02 OF 06 140325Z

4. NOW THE THIRD PHASE -- THE CONSTITUTION-DRAFTING PERIOD, WHICH HAS GONE ON A YEAR -- IS DRAWING TO ITS CLOSE. THE PRINCIPAL QUESTIONS IN THIS YEAR HAVE BEEN WHETHER A CONSENSUS COULD BE ACHIEVED ON A CONSTITUTION AND WHETHER DIFFICULT ISSUES OF GOVERNANCE -- PARTICULARLY THE STABILIZATION OF THE ECONOMY AND THE INTERIM SATISFACTION OF CATALAN AND BASQUE AUTONOMY DEMANDS -- COULD BE FACED EFFECTIVELY. THOSE QUESTIONS -- EXCEPT FOR THE IMPORTANT BASQUE ISSUE -- HAVE BEEN ANSWERED IN THE POSITIVE -- QUITE EXTRAORDINARILY SO WHEN ONE REFLECTS ON THEIR ESSENTIAL DIFFICULTY. THE REASON IS TWO-FOLD: (A) THE CONVICTION OF THE MAJOR POLITICAL PARTIES THAT THEY MUST COOPERATE ON THE COUNTRY'S BASIC PROBLEMS TO PRESERVE DEMOCRACY AND TO THEMSELVES REMAIN ACTIVE, OVERT PARTICIPANTS IN THE POLITICAL PROCESS IN A SPAIN THAT SHOULD NOT RETURN TO POLARIZATION AT THE EXTREMES; AND (B) THE WILLINGNESS AND ABILITY OF THE POLITICAL LEADERSHIP TO DIALOGUE AND TO COMPROMISE TO ACHIEVE CONSENSUS.

5. THE NEW CONSTITUTION WILL BE APPROVED BY NATIONAL REFERENDUM, PROBABLY IN OCTOBER. THEN A NEW PHASE -- THE FOURTH -- WILL BEGIN. IT WILL BE A PHASE IN WHICH THE ISSUES OF POLITICS AND GOVERNANCE WILL NOT BE SO CLEAR-CUT; THE EUPHORIA OVER DEMOCRACY WILL HAVE DECLINED IN THE FACE OF HARD, OFTEN INTRACTABLE DAY-TO-DAY PROBLEMS; NOSTALGIA OVER THE MATERIAL WELL-BEING AND ORDERLINESS OF THE LATTER FRANCO YEARS WILL TEND TO GROW, AS ALSO, ALTHOUGH PERHAPS TO A LESSER DEGREE, WILL ROMANTICISM REGARDING SOLUTIONS ON THE LEFT; INDUSTRIAL RELATIONS PROBLEMS MAY BECOME MORE ACUTE; AND THE WILL TO DIALOGUE, COOPERATE AND COMPROMISE IN THE INTERESTS OF LEAST-BAD GOVERNMENT WILL BE MORE SEVERELY TESTED.

CONFIDENTIAL

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PAGE 03 MADRID 07936 02 OF 06 140325Z

6. THE MOST CRITICAL INTERNAL UNCERTAINTIES THAT LIE AHEAD FOR SPAIN IN THIS NEW PHASE ARE WHETHER THE PRINCIPAL POLITICAL LEADERSHIP WILL CONTINUE WILLING TO DIALOGUE AND COMPROMISE IN THE INTEREST OF EFFECTIVE PRACTICAL GOVERNMENT AND THE PRINCIPAL POLITICAL FORCES WILL MAINTAIN THE MODERATION EXHIBITED THUS FAR; WHETHER THE ECONOMY WILL BE NURSED PATIENTLY THROUGH ANOTHER YEAR OR TWO OF STABILIZATION AND THEN BACK TO GROWTH; AND WHETHER THE BASQUE PROBLEM WILL BE AMELIORATED WITH A CONCOMITANT REDUCTION OF TERRORISM.

7. THE BEST SUMMARY OF THE CURRENT POLITICAL PARTY AND POLITICAL LEADERSHIP SITUATION HOPEFULLY IS THAT THE PARTIES OF THE CENTER AND THE LEFT HAVE TOO MUCH AT STAKE IN THE DEMOCRATIC EXPERIMENT TO MOVE FAR FROM MODERATION, COHESION AND COOPERATION AMONGST THEMSELVES IN THE FORE-SEEABLE FUTURE. THE DANGERS ARE MORE ON THE RIGHT, WHICH IS LESS CHARY OF POLITICAL POLARIZATION AND MORE INCLINED TO IMPATIENCE; AND IN THE SHEER PHYSICAL TIREDNESS OF SUCH EXCEPTIONAL YOUNG LEADERS AS SUAREZ OF THE UCD AND GONZALEZ OF THE PSOE, WHO ARE CARRYING HEAVY BURDENS INDEED. BUT THE RIGHT IS NOT ALL THAT STRONG AT THIS WRITING, THE MILITARY ARE LOYAL TO THE KING AND CURRENTLY WITHOUT STRONG LEADERSHIP INCLINED TO ROCK THE POLITICAL BOAT, AND SUAREZ AND GONZALES ARE NOT THE ONLY ABLE YOUNG LEADERS IN SPAIN. THEY ARE VERY IMPORTANT, BUT IF SOMETHING HAPPENED TO EITHER OF THEM THE OBJECTIVE SITUATION PROBABLY WOULD PRODUCE OTHERS WHO WOULD FOLLOW THE SAME GENERAL LINE ALMOST AS EFFECTIVELY, ASSUMING REASONABLE PUBLIC ORDER AND ECONOMIC AND SOCIAL WELL-BEING.

8. THE KING'S CONTINUED IMAGINATIVE AND UNIFYING LEADERSHIP COMES CLOSEST TO BEING INDISPENSABLE FOR THE NEXT FEW YEARS. HE HAS MANAGED TO MAINTAIN HIMSELF SOMEWHAT -- THOUGH NOT FAR -- ABOVE THE BATTLE AND HAS ACHIEVED
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PAGE 04 MADRID 07936 02 OF 06 140325Z

WIDESPREAD POPULARITY. HIS HAS BEEN A REMARKABLE PERFORMANCE INDEED.

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PAGE 01 MADRID 07936 03 OF 06 140334Z

ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10

L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11

AID-05 CEA-01 COME-00 EB-08 EA-10 FRB-03 IO-13

NEA-10 OPIC-03 TRSE-00 LAB-04 SIL-01 AGRE-00

OMB-01 MCT-01 ACDA-12 /138 W

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R 131203Z JUL 78

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C O N F I D E N T I A L SECTION 03 OF 06 MADRID 07936

USOECD

9. WITH REGARD TO THE ECONOMY, THE FIRST YEAR OF THE STABILIZATION PROGRAM HAS GONE WELL. INFLATION IS DOWN ABOUT 10 PERCENT FROM 1976, THE BALANCE OF PAYMENTS HAS TURNED AROUND, AND RESERVES ARE OVER THE SEVEN BILLION MARK. PROGRESS IN STABILIZATION HAS QUITE NATURALLY BEEN
CONFIDENTIAL

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PAGE 02 MADRID 07936 03 OF 06 140334Z

AT THE COST OF NEAR STAGNANT GROWTH AND INCREASED UNEMPLOYMENT. TO BE FULLY SUCCESSFUL THE STABILIZATION EFFORT MUST BE CONTINUED FOR ANOTHER YEAR OR TWO, SO THAT

INFLATION WILL BE BROUGHT DOWN FROM ITS CURRENT LEVEL OF ABOUT 17 PERCENT ANNUALLY TO A SINGLE-DIGIT RANGE. THE 1979 ECONOMIC PROGRAM SHOULD BE ADDRESSED BY OCTOBER OF THIS YEAR. HOWEVER, THERE IS NO CERTAINTY THAT IT WILL BE IN VIEW OF POLITICAL PRESSURES. OCTOBER WILL BE JUST WHEN DECISIONS ARE BEING MADE ON MUNICIPAL AND NATIONAL ELECTIONS. THE KEY ECONOMIC ISSUE WILL BE WAGE RESTRAINT IN THE NEXT ROUND OF WAGE NEGOTIATIONS BEGINNING TOWARD THE END OF THIS YEAR. IF THAT CANNOT BE ACHIEVED, THE PROGRAM WILL BE IN TROUBLE AND SO WILL SPANISH DEMOCRACY. THERE ARE SOME INDICATIONS THAT THE POLITICAL LEADERS OF THE LEFT CONTINUE TO RECOGNIZE THIS, BUT IT IS YET TO BE PROVEN THAT THEY CAN BRING THEIR UNION COLLEAGUES ALONG AGAIN IN THE NEXT ROUND. A SECOND KEY ISSUE IS RETURN OF INVESTOR CONFIDENCE; THAT DEPENDS BOTH ON CONSOLIDATING POLITICAL MODERATION AND THE SUCCESS OF THE STABILIZATION PROGRAM. A THIRD KEY ISSUE IS CONTINUED MONETARY RESTRAINT, WHICH IS CURRENTLY IN QUESTION MORE FOR TECHNICAL THAN FOR POLICY REASONS.

10. THE BASQUE "PROBLEM," WHOSE ROOTS GO BACK TO THE 19TH CENTURY, WAS GREATLY EXACERBATED BY ALMOST FOUR DECADES OF FRANCO'S AUTHORITARIANISM AND CENTRALISM, WHICH ENGENDERED THE POLITICAL RADICALIZATION OF THE REGION THAT HELPED TO SPAWN THE BASQUE TERRORIST ETA. THE GOVERNMENT HAS MADE A NUMBER OF IMPORTANT SYMBOLIC CONCESSIONS TO THE BASQUES OVER THE PAST TWO YEARS, BUT THE REGION REMAINS VOLATILE AND SUBJECT TO THE POLARIZING EFFECTS OF CONTINUING ETA DEPREDACTIONS. AS A RESULT, THE GOVERNMENT, THE MAJOR NATIONAL PARTIES AND THE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MADRID 07936 03 OF 06 140334Z

CRITICALLY IMPORTANT PIVOTAL BASQUE NATIONALIST PARTY (PNV) ARE NOW ATTEMPTING TO REACH AGREEMENT ON A MUTUALLY ACCEPTABLE CONSTITUTIONAL FORMULATION CONCERNING REGIONAL AUTONOMY. THERE IS NO SHORT-TERM SOLUTION TO BASQUE TERRORISM, AND THE LONGER-TERM PROSPECTS WILL DEPEND IN LARGE PART ON A CONSENSUS ON THE CONSTITUTION'S AUTONOMY PROVISIONS THAT WILL PERMIT THE PNV TO ADOPT A LESS AMBIGUOUS, MORE AGGRESSIVE ANTI-EXTREMISM POSTURE, WHICH IN TURN WILL BRING THE INCREASING ISOLATION OF THE ETA TERRORISTS. THE BASQUE PROBLEM INTER-RELATES WITH THE ECONOMIC PROBLEM BECAUSE INVESTMENT IN ONE OF SPAIN'S MOST PRODUCTIVE AREAS IS ADVERSELY AFFECTED BY IT. UNLESS EFFECTIVELY DEALT WITH OVER TIME, THE BASQUE PROBLEM AND CONCOMITANT TERRORISM CAN UNDERMINE MODERATE SPANISH POLITICAL EVOLUTION.

C. UNITED STATES-SPANISH RELATIONS

1. OUR RELATIONS WITH SPAIN HAVE BEEN REMARKABLY GOOD IN THE TRANSITION PERIOD THUS FAR, DESPITE THE ALBATROSS OF OUR PAST INTIMACY WITH FRANCO. THERE ARE A NUMBER OF REASONS. THE SPANISH PEOPLE APPRECIATE THE POSITIVE THINGS WE HAVE DONE FOR THEM DURING THEIR ISOLATION, ARE USED TO US, AND HAVE A CERTAIN SELF-CONFIDENCE IN DEALING WITH US. THE KING AND THE CENTER LEADERSHIP WANT GOOD RELATIONS WITH US. THE LEFT IS ALSO MOSTLY COMMITTED TO THE WEST AND FINDS US, AT THE LEAST, A NECESSARY PARTNER OF SORTS. WE WERE FORTUNATE TO ENTER INTO A BROAD TREATY RELATIONSHIP VIEWED AS SUPPORTIVE OF THE NEW REGIME AND POLITICAL LIBERALIZATION JUST AFTER FRANCO'S DEATH, AND HAVE CONSISTENTLY VOICED OUR SUPPORT FOR SPANISH DEMOCRATIZATION SINCE FRANCO'S DEATH. AND FOR AT LEAST THE PAST FOUR TO FIVE YEARS WE HAVE WORKED HARD AT IDENTIFYING POTENTIAL NEW LEADERSHIP AND ESTABLISHING RELATIONS OF CONFIDENCE WITH IT.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MADRID 07936 03 OF 06 140334Z

CONFIDENTIAL

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CONFIDENTIAL

PAGE 01 MADRID 07936 04 OF 06 140413Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10

L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11

AID-05 CEA-01 COME-00 EB-08 EA-10 FRB-03 IO-13

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C O N F I D E N T I A L SECTION 04 OF 06 MADRID 07936

USOECN

2. HOWEVER, THE INTIMACY OF OUR BILATERAL RELATIONS WITH SPAIN MAY WELL DECLINE IN THE FUTURE AS SPAIN DIVERSIFIES ITS FOREIGN RELATIONS PARTICULARLY TOWARD EUROPE, AFRICA, THE ARAB WORLD AND LATIN AMERICA. THIS WILL BE ESPECIALLY THE CASE SHOULD THE SOCIALISTS COME TO GOV-CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 07936 04 OF 06 140413Z

ERNMENT. MOREOVER, THERE IS WIDESPREAD SPANISH DISSATISFACTION WITH THE LEVEL AND QUALITY OF US DEFENSE COOPERATION WITH SPAIN, WHICH HAS NOT CHANGED MATERIALLY SINCE FRANCO'S DEATH. THIS DISSATISFACTION FOCUSES ON SPECIFIC PORTIONS OF THE 1976 TREATY RELATING TO ARMS SALES (PRICES, DELIVERY SCHEDULES), TECHNOLOGY TRANSFER AND CO-PRODUCTION, AS WELL AS THE LOSS OF VALUE OF SECURITY ASSISTANCE FROM INFLATION. IT ALSO REFLECTS A BELIEF THAT SPAIN CANNOT REALLY EXPECT FROM THE US A DEFENSE PARTNERSHIP IN WHICH SPANISH SECURITY NEEDS ARE GIVEN PRIORITY CONSIDERATION IN WASHINGTON. THIS DISSATISFACTION REQUIRES MORE POSITIVE ATTENTION THAN WE HAVE GIVEN IT THUS FAR.

3. FORTUNATELY, BOTH MAJOR SPANISH POLITICAL PARTIES ARE COMMITTED TO THE WEST. THE PRINCIPAL FOREIGN POLICY ISSUE THEY WILL FACE OVER THE NEXT FEW YEARS, PROVIDED INTERNAL POLITICAL MODERATION IS MAINTAINED, WILL BE WHETHER OR NOT TO ENTER NATO. WE BELIEVE IT WOULD BE BEST THAT THEY ENTER, AND THE ODDS MAY BE SLIGHTLY THAT THEY WILL -- BUT ONLY SLIGHTLY; AND WE SHOULD BE READY TO ACCEPT AND DEAL POSITIVELY WITH THE POSSIBILITY THAT THEY WILL NOT. FOR THE CENTRAL ISSUE IS NOT WHETHER SPAIN ENTERS NATO, BUT RATHER WHETHER IT CONTINUES AN EFFECTIVE PARTNER OF THE WEST WHETHER OR NOT IT ENTERS NATO.

D. PRINCIPAL RECOMMENDATIONS

1. AS THE CONTINUING FIRST ORDER OF OUR BUSINESS, WE

SHOULD, OF COURSE, MAINTAIN OUR CLEAR SUPPORT FOR THE CONSOLIDATION OF SPANISH DEMOCRACY LED BY MODERATE POLITICAL FORCES UNDER THE KING. A RETURN TO AUTHORITARIANISM OR A MOVE TO POLITICAL EXTREMES -- NEITHER OF WHICH
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MADRID 07936 04 OF 06 140413Z

CAN YET BE RULED OUT AS POSSIBILITIES -- CANNOT HELP EITHER SPAIN OR OUR INTERESTS IN SPAIN.

2. PERSONAL RELATIONS AT THE TOP ARE EXCEOTIONALLY IMPORTANT IN THE ACHIEVEMENT OF THIS FIRST OBJECTIVE, ESPECIALLY IN A SPAIN WHOSE YOUNG NEW LEADERSHIP IS STILL EMERGING AND DEVELOPING. THUS:

-- (A) PRESIDENT CARTER SHOULD VISIT SPAIN BEEORE ANOTHER YEAR IS OUT, TAKING ONTO ACCOUNT IN THE TIMING OF HIS VISIT THE SPANISH ELECTIONS CALENDAR THAT WILL EMERGE AFTER THE CONSITTUTIONAL REFERENDUM IN THE AUTUMN.

-- (B) SECRETARIES VANCE AND BLUMENTHAL SHOULD CONTINUE TO MEET WITH THEIR SPANISH COUNTERPARTS PERIODICALLY IN THE FUTURE AS THEY HAVE IN THE PAST. THE IMMINENT VISIT OF SPANISH MINISTER OF DEFENSE GUTIERREZ MELLADO TO WASHINGTON SHOULD BE FOLLOWED UP BY SUBSEQUENT CONTACTS BETWEEN SECRETARY BROWN AND HIM.

-- (C) THE NATURAL TENDENCY TO DOWNGRADE THE LEVEL AND FREQUENCY OF THE COUNCIL AND COMMITTEE MEETINGS UNDER THE TREATY OF FRIENDSHIP AND COOPERATION SHOULD BE RESISTED.

-- (D) CONGRESSIONAL VISITS TO SPAIN SHOULD BE ENCOURAGED, BUT NOT ON WEEKENDS.

-- (E) TRADE UNION VISITS TO SPAIN SHOULD ALSO BE ENCOURAGED.

-- (F) CONSOLIDATION OF PERSONAL RELATIONS AT THE MISSION LEVEL WITH SPANISH POLITICAL, ECONOMIC AND MEDIA LEADERSHIP SHOULD CONTINUE.

-- (G) THE IVP PROGRAM SHOULD BE EXPANDED AS PREVIOUSLY RECOMMENDED BY THIS MISSION.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MADRID 07936 04 OF 06 140413Z

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MADRID 07936 05 OF 06 140409Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
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TO SECSTATE WASHDC 5313
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AMEMBASSY MOSCOW
USMISSION USNATO

C O N F I D E N T I A L SECTION 05 OF 06 MADRID 07936

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3. SPAIN HAS BEEN AND IS IMPORTANT TO WESTERN DEFENSE
AND MAY BE MORE IMPORTANT IN THE FUTURE. IT WILL MODERN-
IZE ITS MILITARY ESTABLISHMENT FOR ITS OWN REASONS WHETHER
OR NOT IT JOINS NATO. BUT ITS FUTURE SECURITY ORIENTA-
TION IS REALLY UP FOR GRABS. THE ATTITUDE OF ITS SENIOR
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 07936 05 OF 06 140409Z

MILITARY OFFICERS WILL BE VERY IMPORTANT IN SPAIN'S FINAL DECISION ON WHETHER OR NOT IT JOINS NATO AND THE DEGREE TO WHICH IT CONTINUES COOPERATION WITH THE UNITED STATES. IT IS IN OUR INTEREST, BEGINNING NOW, TO BE MORE POSITIVE IN OUR DEFENSE RELATIONSHIP WITH SPAIN THAN WE HAVE BEEN.

4. A BASIC POLICY DECISION SHOULD BE MADE TO TREAT SPAIN, WITH RESPECT TO ARMS TRANSFERS, TRANSFER OF MILITARY INDUSTRIAL TECHNOLOGY, AND CO-PRODUCTION OF MILITARY EQUIPMENT, IN A MANNER WHICH WOULD REINFORCE THIS SPANISH GOVERNMENT'S EFFORTS TO ENLARGE SPAIN'S ROLE IN WESTERN DEFENSE AND TO BRING SPAIN INTO NATO. THE EMBASSY HAS RECOMMENDED THAT WE BEGIN TO ALLOW SPAIN TO ACQUIRE US ARMS WHICH ARE IN THE NATO INVENTORY IN EUROPE ON TERMS SIMILAR TO THOSE GIVEN OUR ALLIES AND TO ATTUNE TECHNOLOGY TRANSFER AND CO-PRODUCTION DECISIONS MORE TO THE LEVEL OF COOPERATION WITH OUR NATO ALLIES.

5. SUCH AN APPROACH WOULD CONTRIBUTE TO THE IMPORTANT PROCESS OF EDUCATING SPANISH OPINION ON THE VALUE TO SPAIN OF NATO MEMBERSHIP, AS WELL AS TO DEVELOPING A WEB OF SECURITY RELATIONSHIPS WHICH WOULD TIE SPAIN MORE CLOSELY TO ATLANTIC DEFENSE REGARDLESS OF THE EVENTUAL DECISION ON JOINING THE ALLIANCE. TO EXPLICITLY WITHHOLD SUCH COOPERATION UNTIL SPAIN JOINS NATO WOULD PLAY INTO THE HANDS OF SPANISH OPPONENTS OF NATO MEMBERSHIP WHO ARGUE THAT THE GOS -- WHICH SUPPORTS MEMBERSHIP -- IS SUSCEPTIBLE TO US PRESSURE TACTICS. TO VOLUNTEER SUCH COOPERATION, RATHER THAN MAKE IT PART OF DRIVING A HARD BARGAIN, WOULD REINFORCE THE GOS LEADERSHIP'S ABILITY TO ARGUE THAT ITS EFFORTS TO MOVE TOWARD NATO BRING TANGIBLE BENEFITS TO SPAIN. PERHAPS MORE IMPORTANT IN THE LONG RUN IS WHAT COULD BE ACCOMPLISHED ON BOTH SIDES REGARDING

CONFIDENTIAL

PAGE 03 MADRID 07936 05 OF 06 140409Z

THE PSYCHOLOGY OF THE US-SPANISH DEFENSE RELATIONSHIP. THERE COULD BE A HEALTHY CHANGE TOWARD CONCENTRATION ON THE FUNDAMENTAL AND VALID IDEA OF EACH SIDE MAKING ITS BEST CONTRIBUTION TO A DEFENSE EFFORT THAT IS OF IMPORTANT MUTUAL INTEREST. THE CONCENTRATION ON THIS CONCEPT WOULD BE IN LIEU OF THE CONTINUANCE OF THE FALSE AND DAMAGING IDEA SO GENERALIZED IN THE PAST THAT THE US MUST PAY, AT TIMES GRUDGINGLY, A CERTAIN, NEVER FULLY DEFINED, JUST PRICE FOR BASE FACILITIES THAT ADD TO SPAIN'S RISKS RATHER THAN ENHANCING ITS SECURITY.

6. WITH REGARD TO THE NATO MEMBERSHIP ISSUE ITSELF, WE SHOULD CONTINUE OUR PRESENT POSTURE -- THAT WE FAVOR SPANISH MEMBERSHIP BUT IT IS A SPANISH DECISION TO MAKE -- WHILE ALSO CONTINUING DISCREETLY TO PRESENT THE POSITIVE

ARGUMENTS FOR MEMBERSHIP, AND ENCOURAGING OTHER NATO MEMBERS TO DO LIKEWISE. THE LAST POINT IS PARTICULARLY IMPORTANT. WITH THE PARTIAL EXCEPTION OF THE FRG AND PORTUGAL, OUR EUROPEAN ALLIES HAVE YET TO CONTRIBUTE MUCH TO PERSUADING THE SPANISH LEFT THAT JOINING NATO IS A NATURAL PART OF JOINING EUROPE AND WOULD NOT DESTABILIZE EAST-WEST RELATIONS.

7. CONCERNING THE SPANISH ECONOMY, WE SHOULD NOT BE LULLED BY THE SUCCESS OF THE SPANISH STABILIZATION PROGRAM THUS FAR. ITS CONTINUANCE FOR ANOTHER COUPLE OF YEARS AND THE RETURN OF THE SPANISH ECONOMY TO LONG-TERM HEALTH IS ESSENTIAL TO CONSOLIDATION OF SPANISH DEMOCRACY AND TO SPAIN'S PLAYING THE POSITIVE ROLE IN THE WEST THAT IT CAN AND SHOULD PLAY IN THE FUTURE. BUT THE CONTINUATION OF SOUND ECONOMIC POLICIES IN SPAIN IS NOT ASSURED, POLITICIANS AND THEIR NORMAL PRIORITIES BEING WHAT THEY ARE. WE SHOULD THEREFORE FOLLOW CLOSELY THE IMPLEMENTATION OF THE STABILIZATION PROGRAM OVER THE NEXT TWO YEARS, WITH A VIEW TO MOVING, IF NECESSARY,

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PAGE 01 MADRID 07936 06 OF 06 140410Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
AID-05 CEA-01 COME-00 EB-08 EA-10 FRB-03 IO-13
NEA-10 OPIC-03 TRSE-00 LAB-04 SIL-01 AGRE-00
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R 131203Z JUL 78
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TO SECSTATE WASHDC 5314
INFO AMEMBASSY ANKARA
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AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY THE HAGUE
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS

AMEMBASSY REYKJAVIK
AMEMBASSY ROME
AMEMBASSY MOSCOW
USMISSION USNATO

C O N F I D E N T I A L SECTION 06 OF 06 MADRID 07936

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INDIRECTLY THROUGH THE IMF TO DISCOURAGE ANY TENDENCIES
TO RELAX THAT MAY OCCUR. AT THE SAME TIME, WE SHOULD
JOIN WITH OTHER OECD MEMBERS IN ENCOURAGING FOREIGN EQUITY
INVESTMENTS IN SPAIN, AND IN MAINTAINING OPEN MARKETS FOR
SPANISH PRODUCTS, AS THE TWO MOST PRODUCTIVE CURRENT MEANS
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PAGE 02 MADRID 07936 06 OF 06 140410Z

OF ASSISTING THE SPANISH ECONOMY TO RECOVERY. (SEE IN
THIS REGARD MADRID 04641.) RESPONSIVENESS WITH REGARD
TO CREDITS NEEDED FOR MILITARY MODERNIZATION CAN ALSO BE
HELPFUL.

8. HE FINAL CRITICAL ISSUE THAT SPANISH DEMOCRACY IS
FACING NOW AND WILL BE FACING OVER THENEXT FEW YEARS --
THE BASQUE PROBLEM AND TERRORISM -- RAISES A QUESTION
WHETHER WE AND OUR EUROPEAN COLLEAGUES CAN AND SHOULD
TRY TO BE MORE HELPFUL IN THE FUTURE IN EXCHANGE OF INTEL-
LIGENCE AND OF INFORMATION ON TECHNIQUES ON COMBATTING
TERRORISM. IT WILL BE RECALLED THAT PRESIDENT SUAREZ
MENTIONED IN HIS CONVERSATION WITH SENATOR BYRD HIS
INTEREST IN ANY INTELLIGENCE HELP WE COULD PROVIDE AGAINST
TERRORISM (REF MADRID 7474).

-- THIS IS AN ISSUE THAT BEARS FURTHER CONSIDERA-
TION ON OUR PART.

E. A FINAL THOUGHT

I SHOULD LIKE TO LEAVE THE READERS OF THIS MESSAGE WHO
HAVE GOTTEN THIS FAR WITH ONE FINAL THOUGHT. SPAIN HAS
COME A LONG WAY IN THE PAST TWO AND ONE-HALF YEARS UNDER
REMARKABLE YOUNG LEADERSHIP. IT HAS THE POTENTIAL NOT
ONLY TO BE AN EXAMPLE FOR OTHER NATIONS MOVING FROM
AUTHORITARIANISM TO DEMOCRACY, BUT ALSO TO BE A VITAL,
POSITIVE FORCE IN THE WEST OVER THE NEXT TWO OR THREE
DECADES. THIS, I BELIEVE, IS THE VISION ITS NEW LEADER-
SHIP HAS FOR IT. WE HAVE A STAKE IN ITS PROVIDING THAT
EXAMPLE AND REALIZING THAT POTENTIAL; AND WE, TOGETHER
WITH OUR EUROPEAN COLLEAGUES, SHOULD GIVE CONTINUING AND
CAREFUL ATTENTION TO THE ROLE THAT WE CAN BEST PLAY TO SUP-
PORT THE REALIZATION OF THIS VISION. FOR THERE IS THE
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PAGE 03 MADRID 07936 06 OF 06 140410Z

OTHER REAL, LIVE POSSIBILITY THAT SPAIN COULD FALL BACK
TO AUTHORITARIANISM, AND INTERNATIONAL APATHY AND RELA-
TIVE DESUETUDE, OR WORSE. EATON

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